

DEPARTMENT OF THE ARMY
Missouri River Division, Corps of Engineers
P.O. Box 103, Downtown Station
Omaha, Nebraska 68101

MRDR 37-1-2

MRDDC-AO

Regulation
No. 37-1-2

29 September 1978

Financial Administration
EXTERNAL AUDITS
POLICIES AND PROCEDURES GOVERNING
USGAO, OSD AND USAAA AUDITS

1. Purpose. This regulation establishes policies, responsibilities and procedures concerning external audit activity conducted by the U.S. General Accounting Office (USGAO), Department of Defense Deputy Comptroller for Internal Audit (OSD) and the U.S. Army Audit Agency (USAAA).

2. Applicability. This regulation is applicable to the Missouri River Division (MRD) and to all Districts and Field Office elements under its control.

3. References.

- a. AR 36-1.
- b. AR 36-5.
- c. AR 36-6 and OCE Suppl 1 thereto.
- d. AR 36-20 and OCE Suppl 1 thereto.

4. Audit Terminology.

a. General terms used by external audit agencies are defined as follows:

(1) Survey - A general overall review of an activity to determine how the area operates and to identify potential problem areas which may be reviewed in greater detail during a subsequent specific audit.

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(2) Audit - A methodical examination and review of a situation or condition. The audit concludes usually with a detailed report of findings.

(3) Review - A critical or deliberate examination made to discover excellences or defects.

b. All external audit agencies perform surveys. When performing indepth examinations, the OSD and the USAAA use the term audit; whereas the USGAO uses the term review. However, for purposes of this regulation the terms audit and review are synonymous

5. Audit Agency Relationship.

a. External audit agency assistance is a valuable management tool which is to be used to improve operational effectiveness. Accordingly, a positive attitude and constructive approach will be maintained in dealing with external auditors. When auditors identify operating deficiencies that are clearly not in accordance with regulations and the regulatory procedure can be implemented without major disruption of organizational objectives the regulatory procedure should be implemented. If implementation of the regulatory procedure will result in major disruption of objectives the District/Division should acknowledge the deficiency and request a waiver from higher authority. Each case will stand on its own merit. Reliance on common sense will be the deciding factor in determining when and if action should be taken to eliminate a purported deficiency. If the deficiency identified by the external auditor is a matter of interpretation of regulations, at a minimum, follow-up action should be taken to seek clarification from higher authority prior to receipt of a formal audit report.

b. Maximum cooperation will be provided to the external audit agencies to enhance the successful accomplishment of the missions of those agencies. This will include providing assistance, as required; furnishing on a timely basis, records or information in response to audit queries; and making available proper working space and facilities. (Responsibilities for the Resident Audit Office and Staff Elements are at Appendices A and B. respectively.)

c. The District Engineer/Division Engineer will designate the activity chief with primary responsibility in the area being audited to monitor technical matter pertaining to an external audit.

6. Release of Information. Directives cited in para 3, above, provide guidance concerning access to and release of records, reports and information to external audit agencies. When doubt exists as to whether specific documents or information should be furnished to external audit agencies, the Resident Audit Office will make the release determination. (Specific guidance relating to release of information is at Appendix C.)

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7. Entrance/Exit Conferences.

a. Entrance Conferences are conducted to acquaint all concerned with the scope and intent of forthcoming audits.

b. Exit conferences are held to discuss the results of an audit.

(1) Prior to the conference, the external audit agency usually provides a draft of its audit findings. (See Paragraph 8, below

concerning issuance of audit reports.)

(2) At the conference it is proper to raise any points concerning the audit which require clarification, and reaffirm or reinforce the District/ Division position with additional data. This action will be taken in an attempt to have the external audit agency change or revise its findings which are not agreed with by the District/Division.

(3) After the conference, time is granted for the District/ Division to submit to the external audit agency, in writing, any matters which are considered pertinent to the draft report or exit conference.

(Responsibilities of the Resident Audit Office and Staff Elements are at Appendices A and B. respectively.)

8. Processing Audit Findings.

a. Reports of audit highlight problem areas requiring District/ Division attention. Staff Chiefs, District/Division and Field Offices will insure personally that responses to audit findings and reports present an effective appraisal of the District/Division position. Remarks will be specific and address the conditions and recommendations~directly. Generalities will be avoided. A capability will be maintained to review thoroughly and expeditiously all audit reports

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and related actions (including initial and subsequent audit positions); prepare and submit timely response input (fully coordinated with interested offices); and accumulate continually information on uncompleted actions in order to be prepared to update a previously submitted position. Every effort will be made during the audit to take the action necessary to minimize or eliminate audit findings.

b. The external audit agencies submit audit findings/reports in the following manner:

(1) USGAO - Interim findings are issued generally in letter format. Prior to completion of an audit, a fact summary is issued outlining the results of the audit. Draft reports are issued after the completion of the audit. Final reports are issued to Congress and seldom received by the District/Division. Depending on the guide lines under which the USGAO undertakes and audit, the aforementioned documents may or may not be issued in writing; sometimes distribution of reports concerning audits made at Congressional request are restricted. When no written findings are issued, the USGAO will usually advise the District/Division of the audit results orally.

(2) OSD - A draft report is issued at the conclusion of an audit for the purpose of obtaining management comments. Final reports are issued eventually which formalize the audit results and normally include management's positions on the findings and recommendations.

(3) USAAA - Interim findings are issued as Tentative Findings and Recommendations (TFAR) o In instances where the USAAA considers that a matter deserves immediate command attention, letter reports are issued. Prior to an exit conference, a draft report is issued. A final formal report is issued at the conclusion of an audit.

c. During the course of an audit, findings are updated frequently and resubmitted for review. The revised findings may contain either minor or significant changes. Accordingly, each finding issuance requires close scrutiny and an updated position, as appropriate. When necessary, discussion will be held with the auditors to clarify audit findings, and review sample results therein so that specific matter and references can be understood mutually. Maximum attention will be given to resolving audit differences; this can lead to the withdrawal or revision of audit findings.

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d. District/Division responses to audit findings are processed in the following manner (unless directed otherwise by higher headquarters). In all cases, care will be exercised to insure proper justification and presentation of the District/Division position. Responses will always indicate the current position of the District/Division.

(1) USGAO - Responses to letter reports are sent to the USGAO office issuing the letter report with a copy forwarded through normal command channels. Responses to draft reports/fact summaries will be transmitted through command channels to OCE.

(2) OSD - Responses to letter reports will be submitted to the OSD office issuing the letter report. Responses to draft reports will be transmitted through command channels to OCE. Final reports normally do not require a response.

(3) USA M - Responses to Tentative Statements of Findings and Recommendations (TFAR) and draft reports will be submitted to the office issuing the TFAR/draft report with a copy forwarded to MRD. Responses to final reports will be transmitted through command channels to HO, DA.

e. The draft report will be used as a basis for discussion at the audit exit conference (see para 7, above).

f. Instructions for preparing audit findings/reports responses are at Appendix E - USA M ; and Appendix F - USGAO/OSD. (Responsibilities of the Resident Audit Office and Staff/Field Elements are at Appendices A and B. respectively.)

9. External Audit Activity Follow-Up. Continuous action will be taken to correct operating deficiencies identified in audit reports until the problem and underlying cause are eliminated. (Responsibilities of the Resident Audit Office and Staff Elements are at Appendices A and B. respectively.)

FOR THE DIVISION ENGINEER:

/s/
V.D. STIPO
Colonel, Corps of Engineers
Deputy Division Engineer

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APPENDIX A
Resident Audit Office
Responsibilities

Relationship With Audit Agency:

- a. Performs liaison with MRD on all matters concerning external audits.
- b. Maintains liaison with external auditing agencies.
- c. Keeps all concerned advised of external audit activity.
- d. Monitors and coordinates external audit activity within the District and Field Office Elements under its control. Requires external auditors to clear prior to initial entry into a District activity on each new audit subject area. (NOTE: once the auditors have been cleared in to an activity, they may make arrangements directly with the activity chief for return visits on the same audit subject area.)

2. Entrance/Exit Conferences:

- a. Coordinates a mutually acceptable time, date and place for conferences between the external audit agency and the District/Division. Informs all concerned of conference details.
- b. Provides administrative support for conferences.
- c. Distributes copies of draft audit reports (when available) to those concerned prior to the exit conferences. Obtains updated, coordinated, proposed District/Division position concerning audit findings.
- d. Obtains District/Division approval of additional remarks resulting from the exit conference and forwards same to audit agency.
- e. Prepares required reports of conference for submission to higher authority.

3. Processing Audit Findings: Informs the District/Division Engineer of external audit agency findings. Transmits external audit findings to responsible office, for preparation of an appropriate response.

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Receives proposed response; insures proper preparation and acceptability thereof; submits same to the District/Division Engineer for approval; and releases the approved response as set forth in para 8d of this regulation.

4. External Audit Activity Follow-Up: Conducts periodic follow-up of internal reviews to ascertain the corrective action taken (whether the audit recommendations concurred with have been implemented) by management officials and the adequacy thereof. These will continue

until evidence exists of positive elimination of the deficient conditions.

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APPENDIX B

Staff Elements/Field Offices Responsibilities

1. Relationship With Audit Agency:

a. Restricts auditor access to the organization when prior Resident Audit Office clearance has not been obtained by the auditor.

b. Transmits periodic, but not less than monthly, the External Audit Activity Summaries to the Resident Audit Office (see Appendix D).

c. Designates a qualified representative with commensurate rank on grade to monitor the activities of the external auditors while they are interviewing and working with action officers and clerks within the organization. Makes the representative's name and audit responsibilities a matter of record within the office to which they are assigned, and to the Resident Audit Office. The representatives

responsibilities are:

(1) Participates actively in the audit to the extent necessary. Such participation will include but not be limited to fielding questions that are beyond the scope of the individual being interviewed.

(2) Insures that each person with whom external auditors have direct contact:

(a) Responds accurately and precisely to the question posed.

(b) States clearly the policy and procedures governing the subject under investigation.

(c) Provides no answers or data which elaborate or volunteer information in areas not concerned directly with their job and duties, or which are not within the parameters and scope of the subject area under audit. Questions or requests for information, not related to the duties of the individual being interviewed, will be referred to the responsible activity chief.

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(d) Furnishes facts or documentation readily concerning the subject under investigation.

(3) Reviews documents requested by the auditors. Provides remarks that clarify or otherwise improve the validity or use of such documents when it appears that they may be subject to misinterpretation or do not reflect the complete and actual picture of the subject being audited. Furnishes requested documents (see pare 6 of regulation) and maintains a permanent record of documentation provided to external auditors.

(4) Prepares proposed District/Division response to audit findings involving the functional areas for which they are responsible.

(5) Provides an External Audit Activity Summary to the Staff Chiefs of the District/Division Office on each visit by the auditors relating to a specific audit area. Instructions concerning the summary are at Appendix D.

d. Conducts a meeting at least once a week with auditors performing extended audit work (informs the Resident Audit Office of scheduled meetings). Discuss audit progress, problems being encountered and actions being taken to resolve such problems. Requires the auditors to state in precise terms what problems have been identified, the magnitude thereof, the representative nature of a general situation in a functional area, and the recommendation for solution thereof. Preparation of the memo, (External Audit Activity Summary), is the primary responsibility of the staff representative.

If no significant findings are discussed at the meeting, the memo should so state. The Resident Audit Office may have a representative at the meetings if considered necessary.

e. Reconciles to the extent possible differences which arise between the external auditors and the activity being audited. Timely and effective implementation of this requirement will minimize unfounded, adverse audit findings; insure that the auditors have available all pertinent facts prior to issuing an audit finding; and/or permit the auditors to include in their report the District/Division position, actions and corrective efforts concerning the finding.

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2. Entrance/Exit Conferences:

a. Provides representation at conferences.

b. Prepares and submits to the Resident Audit Office, an updated, coordinated District/Division position on audit findings and presents same at the exit conference.

c. Prepares and submits to the Resident Audit Office, additional audit remarks as a result of the exit conference.

3. Processing Audit Findings:

a. Prepares a comprehensive analysis of audit findings and submits same to the Resident Audit Office. (For response formats and preparation instructions see Appendixes E (USAAA) and F (USGAO/OSD).) In preparing the reply the following applies:

(1) Conditions. Address in the "ADDITIONAL FACTS" portion of the response the conditions reported by the auditors when they are not factual or do not present the situation as determined to be correct by the District/Division Elements. In addition, provides information on policies and procedures followed which are not covered adequately in the audit report. The basis for the conditions (auditor conclusions, sample results) will be reviewed thoroughly and where appropriate, comments presented thereon. This may necessitate discussions with the auditors since it is unacceptable to state in a response that the auditors conditions could not be verified. The District/Division is considered to accept the audit conditions unless comments thereon are presented. A thorough, mutual understanding (but not agreement necessarily) must exist between the audited activity and the auditors as to the findings before replies are prepared.

(2) Recommendations. The following guidance is not intended to restrict the response to a concurrence or nonconcurrence. It is quite appropriate to concur with part of the recommendation, and nonconcur with the remainder. In those instances when the recommendation is ambiguous, subject to misinterpretation, general in nature, or not directly related to the conditions cited, the auditor will be

contacted (through the Resident Audit Office) in order to resolve the wording so that the recommendation is specific.

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(a) Concur with the recommendation(s) when the findings are representative of a procedure or system failure. The response will include remedial action taken/or to be taken, along with proposed target dates for uncompleted actions required to implement the recommendations.

(b) Nonconcur with the recommendation(s) when it is based on statements of generalities by the auditing agency. When the nonconcurrency is based on the premise that the condition cited by the auditors is not factual, a complete justification for the District/Division position will be presented. (NOTE: When detailed comments on conditions are presented as ADDITIONAL FACTS, the nonconcurrency will summarize (not repeat) the previously stated position.) When a nonconcurrency is given for a recommendation based on valid conditions but unacceptable recommendation, an alternate, acceptable, solution will be presented. Nonconcurrency will be supported fully.

b. Insures that subsequent responses are consistent with the position established previously on the same subjects; or if the position has changed, provides reasons for the change in current position.

c. Presents the District/Division position concerning findings at the exit conference. When events during the exit conference dictate, (discussions indicate a position change may be warranted by the auditors or Agency) prepares additional comments on the findings and forwards same to the Resident Audit Office (See para 2, App B).

d. Field Offices.

(1) Implements procedures outlined in paragraphs a (1) and (2) above.

(2) Forwards responses, to external District/Division audit actions and reports over their personal signature to the District/Division Engineer, ATTN: Audit Office, for review and indorsement.

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4. External Audit Activity Follow-Up: Initiates positive action to

implement recommendations which the District/Division has concurred with. Insures that the recommended/corrective actions are carried through to completion and that the problem and underlying causes are eliminated permanently. Maintains documentary evidence to support such actions for later review/audit. Documents reasons fully for a revised approach to resolving a problem in the event future developments require a change from the original position for eliminating an operating deficiency.

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APPENDIX C

MRD Policy on Release of Information

1. ADP output provided to external auditors will be of three types and will be handled as follows:

a. ADP output already available within District/Division elements. This may be provided to the auditors by the elements concerned when considered appropriate. When such information is provided to the auditors for their retention this must be indicated in appropriate reports, and an exact copy of any documentation released to the

auditors must be maintained by the office releasing the information.

b. ADP output that can be provided via various types of request cards. This output will be obtained as long as the information requested is clearly within the scope of the audit. Auditors requiring such output will provide two decks of the appropriate request cards with a cover DF. The cover DF should state what is being requested and indicate briefly the purpose and scope of the audit. One copy of all output provided to the auditors for their retention will be maintained in the office of record until all audit requirements have been met.

c. Special ADP output that cannot be obtained via standard request cards. This output will be obtained after obtaining approval therefor from the Executive Assistant. In this case, auditors should prepare a more detailed DF justifying the requirement for the information, as well as indicating the purpose and scope of the audit. One copy will be retained and one copy will be furnished to the auditors.

2. Correspondence, TWX's etc., initiated at an activity other than this Agency will not be released to external audit agencies without the approval of the initiator.

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APPENDIX D

External Audit Activity Summary

1. Title of Audit: (Use the formal title provided by the auditors.)
2. Name of Auditor(s): (Self-explanatory.)
3. Period of Audit: (Indicate time and date of auditor's visit(s) covered by this report. If the auditor has left the audit area, state whether they have indicated an intention to return.)
4. Action Officer(s): (List name(s), position(s) and telephone number(s).)
5. Scope of Audit: (Cite the specific operational area(s) in which the auditor has indicated a concern.)
6. Audit Information: (Provide a concise summary of the information requested by and provided to the auditor. Include references to records reviewed; titles of listings or reports; identification of extracted data, etc. Copies of documents provided to the auditors will

not be submitted with the summary, unless they are essential to an understanding of audit information set forth in this paragraph.)

7. Potential Audit Findings: (Identify potential operating deficiencies based on the auditor's statement and/or the action officer's evaluation of the information/materiel data furnished the auditors.)

8. Corrective Action: (Cite the action which has been or will be taken to correct any deficient operating conditions listed in paragraph 7, above.)

Instructions for Preparing the External Audit Activity Summary:

1. The purpose of the summary is to keep the District/Division Engineer fully informed on audit activity so that "no surprise" will occur.

2. Prepare a separate summary for each audit.

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3. Due date for receipt of the summary in the Resident Audit Office is noon of the second work day following the end of each month or immediately when significant findings are disclosed.

4. In those instances where auditor visits are less than one month in duration, information thereon will be accumulated and submitted in a weekly summary.

5. When it is indicated by the auditors or can be determined by operations personnel (e.g., action officers) that an actual or a potential significant/ serious situation may exist, details thereon will be immediately brought to the attention of the appropriate office. Normally, this will be accomplished in writing; however, if conditions warrant, the information will be provided orally and followed by written confirmation to the appropriate action office. A copy of the written communication will be provided to the Resident Audit Office.

6. Action officers must be aggressive in determining the scope and coverage of auditors activities- for inclusion in the summary. Specific questions will be posed to the auditors to insure that complete understanding exists between the audited activity and the auditors. Auditors will be questioned specifically as to whether they consider the areas audited to be deficient.

7. The summary is exempt from reports control under the provisions of para 7-2t, AR 335-15.

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APPENDIX E

USAAA Statements of Condition and Recommendations

1. Statement of Condition and Recommendations: (Cite the title of the finding as shown in the audit report.)

2. Additional Facts: (List facts that are pertinent to the details of conditions cited by the USMA which are not in the report. Address each paragraph of the report (or portion thereof) which you do not agree with or which requires clarification. Present extenuating circumstances which may have caused the situation. Address the specific examples of operating deficiencies cited in the finding and indicate the action taken concerning these.)

3. Recommendations and Actions Taken:

a. Recommendation:

(1) Repeat the recommendation verbatim as set forth in the report.

(2) Action Taken. (See App B. para 3).

(a) (State whether the District/Division Engineer's position is concur or nonconcur.)

(b) (Present a concise statement of action taken on concurrences; or, in case of contemplated action, what action will be taken along with target date as to when such action will be taken and/or completed. This is necessary only where there is a condition which required action. Present a summary of the justification for a nonconcurrence.)

b. (When more than one recommendation is involved, address each separately following format in para 3a, above.)

Instructions for Preparing Replies to USAAA Statements of Condition and Recommendations:

1. Each Statement of Condition and Recommendations will be addressed separately.

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2. The USMA provides in its Details of Conditions the basis for its recommendations. Accordingly, any comments concerning these details will be addressed in the ADDITIONAL FACTS. (NOTE: it is considered that the District/ Division accepts a stated audit condition as factual unless comments thereon are provided in the ADDITIONAL FACTS.)

3. The response to the recommendation should be direct and if necessary include a summary of the key points presented in the "ADDITIONAL FACTS."

4. Para 8 of this regulation provides additional guidance on responding to audit findings.

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APPENDIX F

USGAO FACT SUMMARY

1. Audit Identification: (Title of audit as shown in the fact

summary.)

2. Summary of USGAO Facts/Allegation: (Present a concise extract from the Fact Summary. Include identification to chapter/section page and paragraph.)

3. Additional Facts: (Cite facts that are pertinent to the USGAO statement/allegation which are not in the report. Also extenuating circumstances which may have caused the situation. Address specific examples of operating deficiencies cited in the report.)

4. District/Division Position: (Provide a full disclosure of the position taken by the Agency. Acknowledge the condition if true; and if not true, provide a full discourse as to what the position of the District/Division is, based on the additional facts as set forth in paragraph 3.)

5. Action taken or Contemplated: (Present a concise statement of action taken; or, in case of contemplated action, what action will be taken along with target date as to when such action will be taken and/or completed.)

Instructions for Preparing Responses to USGAO Fact Summaries/OSD Reports:

1. A separate response will be prepared concerning each allegation and statement in the report which is not correct or requires clarification. (NOTE: it is considered that the District/Division accepts a stated audit condition as factual unless comments thereon are provided in the ADDITIONAL FACTS.)

2. In order to place the above individual responses into proper perspective, an overall appraisal of the fact summary's findings on the District/Divisions operations will be prepared. This summary will address each chapter of the fact summary or when none by major subjects areas discussed.

3. The preparation guidelines set forth herein also apply to responses prepared for OSD reports.